



MICHIGAN ECONOMIC UPDATE

Office of Revenue and Tax Analysis Michigan Department of Treasury

<http://www.michigan.gov/treasury>

August 2002 Summary

U.S. Economy: August's economic indicators were mixed. Both the manufacturing and non-manufacturing ISM indices signaled stagnation. Industrial production and capacity utilization both fell after seven straight monthly increases. Consumer sentiment fell for the fourth straight month to its lowest level this year; consumer debt levels remain high. Weekly initial unemployment claims rose above 400,000. The Conference Board's index of leading economic indicators fell for the third straight month. Recent substantial declines in the ECRI weekly leading index suggest that the recovery is shaky.

On the up-side, durable goods orders rose sharply in July as did August retail sales. Record mortgage refinancing has helped buoy consumption. Supported by record low mortgage rates, the housing sector has remained strong. Similarly, bolstered by dealer incentive promotions, light vehicle sales remained brisk.

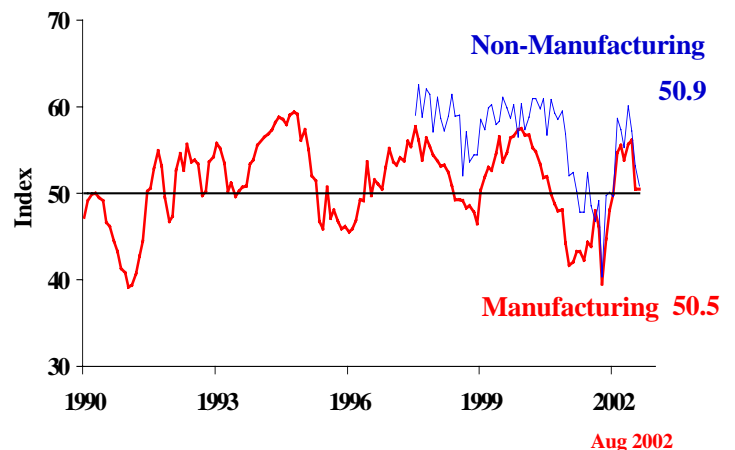
Employment: U.S. employment has risen modestly four straight months but is still 1.1 million lower than a year ago. Michigan's unemployment rate fell 0.4 of a percentage point to 6.2 percent; the U.S. rate declined 0.2 of a percentage point to 5.7 percent. From a year ago, Michigan's unemployment rate is up 0.7 of a percentage point; the U.S. rate is up 0.8 of a percentage point. Both Michigan and U.S. payroll employment fell 0.9 percent from a year ago.

Auto Industry: The light vehicle sales rate rose to 18.6 million units, up 14.2 percent from last year. Michigan light vehicle production rose 9 percent from a year ago while U.S. production was essentially unchanged.

Inflation: Overall, U.S. consumer inflation remains moderate. Consumer prices are up 1.8 percent while producer prices are down 1.6 percent compared to a year ago. Through the first eight months of 2002, consumer prices have risen at a 2.7 percent annual rate. Consumer energy prices have risen at a 13.5 percent annual rate and consumer petroleum prices have increased at a 32.6 percent rate through August.

Michigan Metro Areas: In July 2002, the unemployment rate rose in all twelve Michigan labor markets compared to a year ago with a median increase of 1.3 percentage points. Four areas reported employment declines exceeding 1.0 percent; two areas reported of 4.0 percent or more.

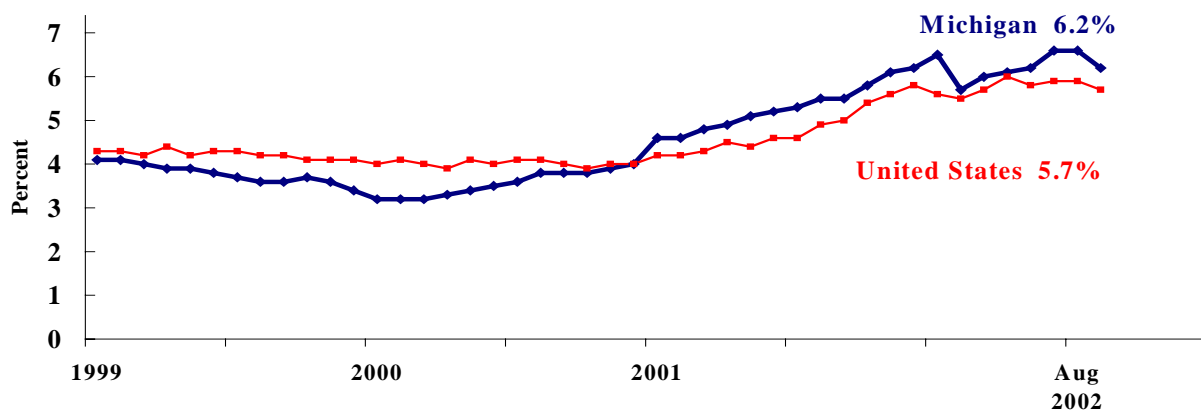
ISM Indices Signal Stagnation ⁽ⁱ⁾



Labor Market Statistics

- In August, Michigan's unemployment rate decreased from last month by 0.4 percentage points to 6.2 percent. Compared to one year ago, the Michigan unemployment rate was up 0.7 percentage points. Monthly unemployment rates fluctuate due to statistical sampling errors and data revisions. Therefore, Michigan's three-month average of 6.5 percent may be a better measure of actual job market conditions. Nationally, the jobless rate decreased 0.2 percentage points from July and was up 0.8 percentage points from one year ago.

Michigan and U.S. Monthly Unemployment Rates 1999 to 2002



Source: Michigan Dept. of Career Development and Bureau of Labor Statistics, U.S. Dept. of Labor

- The number of people employed in Michigan declined by 7,000 to 4,831,000. Compared to one year earlier, Michigan employment fell by 54,000 (1.1 percent). The Michigan labor force decreased by 29,000 from last month and was down 16,000 from a year ago.
- United States employment totaled 134.5 million persons in August, up 429,000 from July and was essentially unchanged from the August 2001 level.

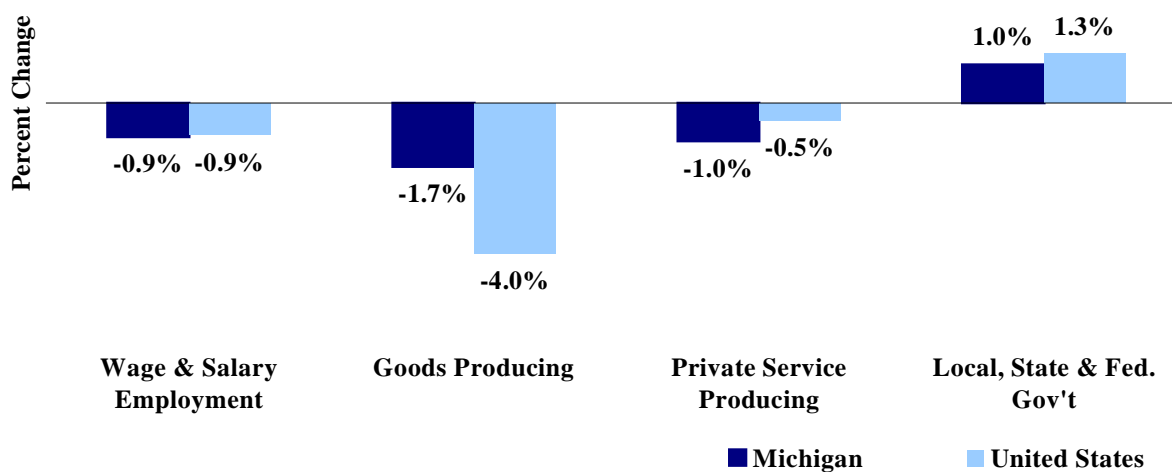
Employment by Place of Residence (in thousands)^(a)

	2001 Average	Jun 2002	Jul 2002	Aug 2002	Change From				Three Month Average
					Jul 2002 Level	%	Aug 2001 Level	%	
Michigan									
Labor Force	5,175	5,184	5,181	5,152	-29	-0.6%	-16	-0.3%	5,172
Employed	4,901	4,844	4,838	4,831	-7	-0.1%	-54	-1.1%	4,838
Unemployed	274	340	343	321	-22	-6.4%	38	13.4%	335
Unemployment Rate	5.3%	6.6%	6.6%	6.2%	n.a.	-0.4% pts	n.a.	0.7% pts	6.5%
United States									
Labor Force	141,815	142,476	142,390	142,616	226	0.2%	1,236	0.9%	142,494
Employed	135,073	134,053	134,045	134,474	429	0.3%	66	0.0%	134,191
Unemployed	6,742	8,424	8,345	8,142	-203	-2.4%	1,170	16.8%	8,304
Unemployment Rate	4.8%	5.9%	5.9%	5.7%	n.a.	-0.2% pts	n.a.	0.8% pts	5.8%

Employment by Place of Work

- From August 2001 to August 2002, Michigan wage and salary employment declined 41,000 (0.9 percent) while U.S. employment fell 1,124,000 (0.9 percent). During the same period, Michigan goods producing employment declined 1.7 percent compared to a 4.0 percent decline nationally.

Wage and Salary Employment Growth August 2001 to August 2002



Source: Bureau of Labor Statistics, Michigan Dept. of Career Development

- In the private service-producing sector, employment declined 0.5 percent nationally compared to a 1.0 percent decline in Michigan. Total local, state, and federal government employment was up 1.3 percent nationally compared to a 1.0 percent increase in Michigan.
- Compared to a year ago, manufacturing hours worked declined 0.6 hours per week in Michigan compared with no change nationally.

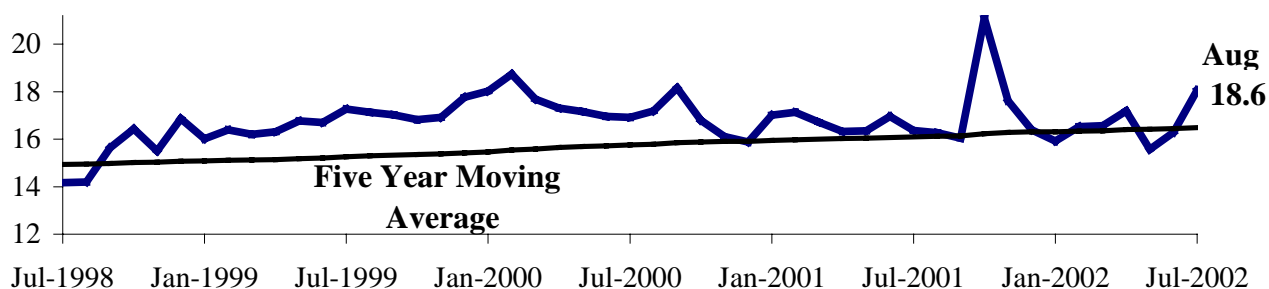
Establishment Employment (in thousands)^(b)

	Michigan				United States			
	2001 Average	Aug 2001	Aug 2002	Percent Change	2001 Average	Aug 2001	Aug 2002	Percent Change
Wage & Salary Employment	4,587	4,576	4,535	-0.9%	132,213	131,966	130,842	-0.9%
Goods Producing	1,136	1,127	1,108	-1.7%	25,122	24,776	23,787	-4.0%
Manufacturing	926	920	901	-2.1%	17,698	17,526	16,682	-4.8%
Private Service Producing	2,764	2,761	2,733	-1.0%	86,219	86,192	85,783	-0.5%
Retail Trade	853	852	836	-1.9%	23,488	23,553	23,286	-1.1%
Services	1,300	1,299	1,290	-0.7%	41,024	41,061	41,312	0.6%
Local, State & Fed. Gov't	687	688	695	1.0%	20,873	20,998	21,272	1.3%
Manufacturing Weekly Hours	41.5	41.9	41.3	-0.6 hrs	40.7	40.7	40.7	0.0 hrs

Motor Vehicle Industry Sales

- Dealer incentive promotions helped boost vehicle sales even higher in August. The light vehicle sales rate rose to 18.6 million units, up 2.9 percent from last month and up 14.2 percent from a year ago. Light truck sales rose to their second highest rate in history at 9.9 million units, up 6.4 percent from July and up 18.7 percent from a year ago. Car sales fell slightly from last month, but were up 9.5 percent from August 2001.

Monthly Light Vehicle Sales (Annual Rate)



- Year to date, the light vehicles sales rate has averaged 16.8 million units, slightly higher than a year ago. Year to date auto sales are down 2.3 percent while light truck sales are up 4.8 percent. Through August, domestic light vehicle sales are down slightly while foreign sales are up 10.3 percent compared to the same period a year ago.
- Dealer inventories fell 4.2 percent from last month and were down 8.2 percent from a year ago. Lower inventories and high vehicle sales reduced days supply by 11 days from a year ago.

Motor Vehicle Sales Statistics

(Millions, unless otherwise specified)

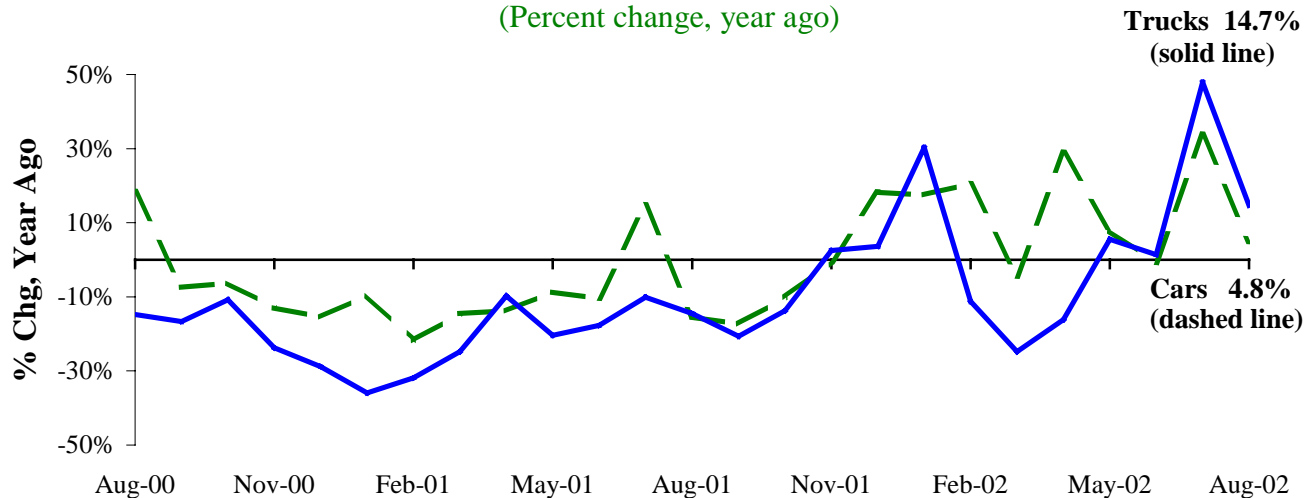
Motor Vehicle Sales ^(c)	2001	Jun	Jul	Aug	3 Month	Change from	
	Average	2002	2002	2002	Average	Level	%
Autos	8.4	8.0	8.8	8.7	8.5	0.8	9.5%
Domestics	6.3	5.7	6.5	6.6	6.3	0.7	11.1%
Imports	2.1	2.2	2.3	2.2	2.2	0.1	4.8%
Import Share	24.9%	27.9%	25.9%	24.9%	26.2%	-1.1% pts	
Light Trucks	8.6	8.3	9.3	9.9	9.1	1.6	18.7%
Domestics	7.6	7.2	8.1	8.8	8.0	1.5	19.9%
Imports	1.0	1.1	1.2	1.0	1.1	0.1	9.2%
Import Share	11.4%	13.1%	12.4%	10.6%	12.0%	-0.9% pts	
Total Light Vehicles	17.0	16.3	18.1	18.6	17.6	2.3	14.2%
Heavy Trucks	0.4	0.4	0.4	0.4	0.4	0.0	2.8%
Total Vehicles	17.5	16.7	18.5	19.0	18.0	2.3	13.9%
U.S. Light Vehicle Inventories ^(d)		Jun-02	Jul-02	Aug-02	3 Month	Change	
Total Car	1.470	1.551	1.365	1.259	1.392	-0.063	
Days Supply	54	53	46	43	47	-6 days	
Total Truck	1.869	1.868	1.599	1.579	1.682	-0.191	
Days Supply	66	63	51	51	55	-15 days	

Motor Vehicle Industry Production

- Michigan motor vehicle production rose 9 percent from a year ago while national production was essentially unchanged. Michigan truck production rose 15 percent while state car production increased 5 percent.

Michigan Vehicle Production

(Percent change, year ago)



- In August 2002, Michigan accounted for 23.5 percent of the 1,102,536 vehicle units produced nationally. Compared to a year ago, Michigan's share of national vehicle production rose 1.9 percentage points.
- Through August, Michigan vehicle production is up 8.0 percent while national production is 6.8 percent higher. Year to date, Michigan car production is up 11.5 percent while state truck production is up 2.2 percent.

Michigan Vehicle Production Statistics

(Thousands, unless otherwise specified)

U.S. Production ^(e)	2001 Average	Jun 2002	Jul 2002	Aug 2002	3 Month Average	Change from Year Ago	
						Level	%
Autos	404.7	448.0	313.3	433.8	398.4	(10.3)	-2.3%
Trucks	553.7	625.0	429.7	668.8	574.5	8.9	1.4%
Total	958.3	1,073.0	743.0	1,102.5	972.9	(1.4)	-0.1%
Michigan Production ^(f)							
Autos	138.7	160.4	113.7	158.1	144.1	7.2	4.8%
Trucks	84.1	95.7	71.0	101.4	89.4	13.0	14.7%
Total	222.7	256.2	184.7	259.5	233.5	20.2	8.5%
Michigan as % of U.S.	23.2%	23.9%	24.9%	23.5%	24.0%	1.9% pts	

Source: Michigan Department of Treasury

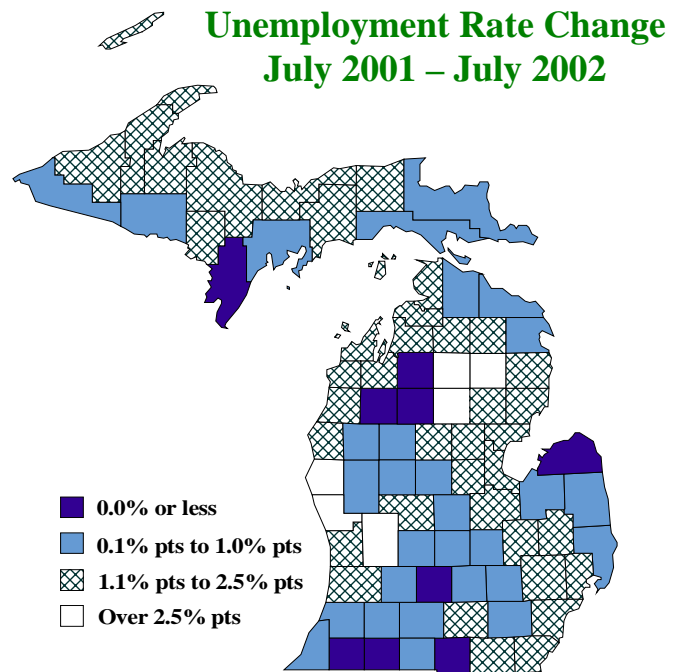
July 2002 Unemployment Higher From Year Ago (Not Seasonally Adjusted)

Compared to a year ago, July 2002 unemployment rates rose in all 12 major Michigan labor markets. Increases ranged between 0.4 of a percentage point and 1.8 percentage points with a median increase of 1.3 percentage points. In nine areas, the unemployment rate rose by more than one percentage point.

Compared to a year ago, employment fell in nine labor markets and rose in the other three. In four areas, employment declined by more than 1.0 percent. Two areas recorded employment declines of 4.0 percent or more: Flint MSA and Saginaw MSA. The median employment decline was 1.0 percentage point from a year ago.

July 2002 unemployment rates ranged between 4.6 percent (Ann Arbor MSA and Lansing MSA) and 10.6 percent (Flint MSA).

The Saginaw MSA and Northeast Lower Michigan areas recorded the largest unemployment increase from a year ago (1.8 percentage points) followed by the Jackson MSA (1.7 percentage points) and the Flint and Grand Rapids MSAs (1.6 percentage points).



Source: Michigan Department of Career Development

Local Area Unemployment Rates^(g)

<u>Local Area</u>	<u>Jul 2002 Rate</u>	<u>Jul 2002 Rate</u>	<u>Latest 3 Month Average</u>
Michigan	5.9%	7.2%	6.6%
Ann Arbor MSA	3.5%	4.6%	4.1%
Benton Harbor MSA	6.1%	6.9%	6.4%
Detroit PMSA	6.0%	7.4%	6.7%
Flint MSA	9.0%	10.6%	9.4%
GR-Musk-Holl MSA	5.9%	7.5%	7.0%
Jackson MSA	5.7%	7.4%	6.8%
Kal-Battle Creek MSA	5.8%	6.2%	5.5%
Lansing MSA	4.1%	4.6%	4.3%
Sag-Bay-Midland MSA	5.4%	7.2%	6.9%
Upper Peninsula	5.1%	6.3%	6.9%
Northeast Lower Mich	6.5%	8.3%	8.1%
Northwest Lower Mich.	5.2%	6.3%	6.5%

Two major labor market areas reported a July 2002 unemployment rate of 5.0 percent or less: Ann Arbor MSA and Lansing MSA. Six areas reported an unemployment rate over 7.0 percent; two reported a rate exceeding 8.0 percent.

The Detroit MSA labor force was unchanged from a year ago. Among the other 11 areas, the labor force rose in eight areas and fell in three. Two areas reported labor force declines exceeding 2.0 percent: Saginaw MSA (2.6 percent) and Flint MSA (2.3 percent). Three areas reported a workforce increase greater than 1.0 percent: Benton Harbor MSA, Jackson MSA and Northwest Lower Michigan.

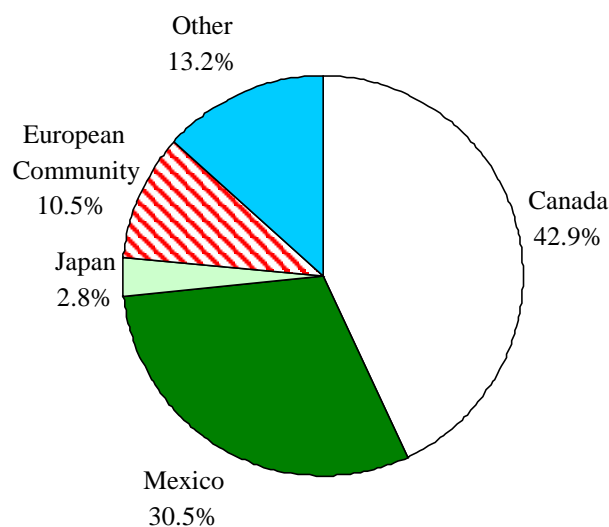
From a year ago, the unemployment rate rose in 74 counties, fell in eight counties and was unchanged in one.

Michigan Exports Rank Fourth Among U.S. States Most Michigan Exports to NAFTA Partners

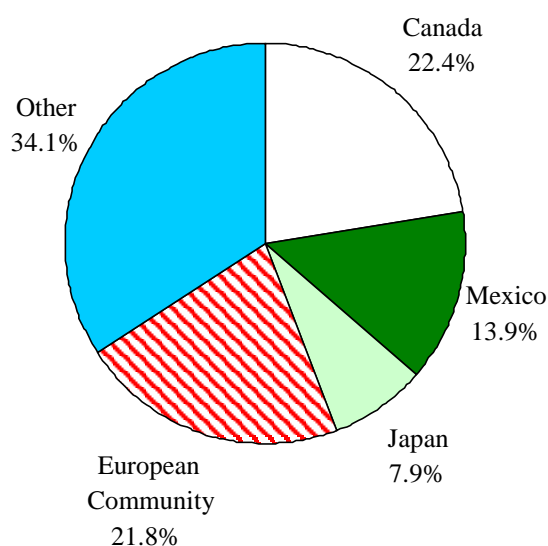
Below are some highlights from Bureau of the Census and International Trade Administration, Department of Commerce state trade data:

- Michigan ranks fourth among U.S. states in exports behind California, Texas and New York. In 2001, Michigan accounted for 6.9 percent of U.S. exports.
- In 2001, Michigan exports totaled \$50.6 billion. In 2001, Michigan exports fell 2.0 percent, while exports fell 6.3 percent nationally.
- Between 1993 and 2001, Michigan exports nearly doubled, increasing 99.8 percent compared with a 57.3 percent increase nationally.
- Canada and Mexico accounted for nearly three-fourths of Michigan exports. Canada comprised 42.9 percent, while Mexico accounted for 30.5 percent. In contrast, the NAFTA partner countries accounted for only 36.3 percent of overall U.S. exports. Similarly, while exports to European Union nations comprised 10.5 percent of Michigan exports, they accounted for 21.8 percent of overall U.S. exports.
- Manufacturing export related jobs account for 9.5 percent of Michigan private sector employment and 22.9 percent of state manufacturing jobs, based the most recent export employment study, conducted using 1997 data.

2001 Exports by Country



Michigan



United States

Source: U.S. Department of Commerce.

U.S. Economic Conditions

	<u>May-02</u>	<u>Jun-02</u>	<u>Jul-02</u>	<u>Aug-02</u>	<u>Change from Year Ago</u>
KEY ECONOMIC INDICATORS					
Consumer Sentiment ^(h)	96.9	92.4	88.1	87.6	-3.9 points
ISM Manufacturing Index ⁽ⁱ⁾	55.7	56.2	50.5	50.5	2.6 points
ISM Non Manufacturing Index ⁽ⁱ⁾	60.1	57.2	53.1	50.9	4.2 points
	<u>2001.3</u>	<u>2001.4</u>	<u>2002.1</u>	<u>2002.2</u>	
Business Executives' Confidence ^(j)	48.0	40.0	66.0	61.0	9.0 points
INFLATION ^(k)					
1982-84 = 100	<u>May-02</u>	<u>Jun-02</u>	<u>Jul-02</u>	<u>Aug-02</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	179.8	179.9	180.1	180.7	1.8%
Detroit CPI	NA	179.0	NA	180.9	3.3%
U.S. Producer Price Index	138.8	139.2	138.9	138.7	-1.6%
INTEREST RATES					
90 Day T-Bill ^(l)	1.74%	1.71%	1.68%	1.63%	-1.76% points
Aaa Corporate Bonds ^(m)	6.75%	6.63%	6.53%	6.37%	-0.65% points
INDUSTRIAL PRODUCTION ^(m)	139.4	140.3	140.9	140.5	0.4%
CAPACITY UTILIZATION ^(m)	75.6%	76.0%	76.2%	76.0%	-0.4% points
RETAIL SALES ⁽ⁿ⁾	\$296.6	\$300.6	\$303.9	\$306.2	5.2%
HOUSING STARTS and SALES					
(Millions Annual Rate)	<u>Apr-02</u>	<u>May-02</u>	<u>Jun-02</u>	<u>Jul-02</u>	<u>% Change From Year Ago</u>
Housing Starts ^(o)	1.566	1.742	1.692	1.645	-1.1%
Existing Home Sales ^(p)	5.770	5.740	5.100	5.330	0.6%
DURABLE GOODS ORDERS ^(q)	\$172.3	\$173.1	\$165.3	\$180.5	5.6%
PERSONAL INCOME ^(c)					
(Billions of Dollars)	<u>2001.2</u>	<u>2001.3</u>	<u>2001.4</u>	<u>2002.1</u>	<u>% Change From Year Ago</u>
Michigan	\$293.0	\$295.0	\$292.0	\$294.8	0.8%
U.S.	\$8,589.8	\$8,608.7	\$8,587.0	\$8,705.2	1.7%
GROSS DOMESTIC PRODUCT					
(Billions of Chained 1996 Dollars) ^(c)	<u>2001.3</u>	<u>2001.4</u>	<u>2002.1</u>	<u>2002.2</u>	<u>Annualized % Chg From Last Qtr</u>
	\$9,186.4	\$9,248.8	\$9,363.2	\$9,389.6	1.1%

SOURCES AND NOTES:

- (a) Seasonally adjusted. Sources: Bureau of Labor Statistics, U.S. Department of Labor and Michigan Dept. of Career Development, Employment Service Agency.
- (b) Bureau of Labor Statistics, U.S. Department of Labor (BLS 790).
- (c) Seasonally adjusted annual rates. Source: Bureau of Economic Analysis, U.S. Department of Commerce.
- (d) Ward's Automotive Reports.
- (e) Automotive News.
- (f) Michigan Department of Treasury.
- (g) Michigan Department of Career Development, Employment Service Agency.
- (h) University of Michigan Survey of Consumers.
- (i) Institute for Supply Management (ISM), formerly NAPM.
- (j) The Conference Board.
- (k) Bureau of Labor Statistics, U.S. Department of Labor.
- (l) U.S. Department of Treasury.
- (m) Seasonally adjusted rates (except interest rates). Federal Reserve System Board of Governors.
- (n) Retail and Food Services Sales. Bureau of the Census, U.S. Department of Commerce.
- (o) Bureau of the Census, U.S. Department of Commerce.
- (p) National Association of Realtors.
- (q) New Orders Excluding Semiconductors. Bureau of the Census, U.S. Department of Commerce.